

SERS-O-GRAM

A newsletter for members of the State Employees' Retirement System of Illinois

APRIL 2002

Governor Proposes Early Retirement Incentive

During his budget address in February, Governor Ryan proposed an Early Retirement Incentive (ERI) for state employees, to help alleviate the state's restricted funds available for the FY03 budget. During the 1991 ERI, there were 4,605 members who elected to retire.

While specific provisions of the ERI were not given, it is assumed that it would generally follow the 1991 program, which allowed employees to purchase up to five years of age and service credit for retirement qualification purposes by paying for one-half of the established service.

If an ERI becomes law, we will provide our eligible members with an estimate of the cost to participate in the ERI and the benefits you could expect to receive.

At this time, no bills have been introduced outlining any specifics of the ERI. There are several pension bills affecting state employees which could ultimately be utilized as a vehicle should the ERI go forward.

OTHER PENDING LEGISLATION

Senate Bill 1779 and House Bill 6053 would allow state employees to receive service or earnings credit for any involuntary furloughs or short layoffs taken for budget purposes between January and July of this year.

House Bills 3685 and 5001 have been reintroduced this year. Currently, when

a state employee dies, the SERS survivor benefit for their spouse is reduced by one-half of the Social Security survivor benefit. The reduction occurs when the survivor is eligible for Social Security at age 60. This proposed legislation, which affects both existing and future recipients, would eliminate the offset from the SERS survivor annuity benefit entirely.

Want to Retire Early?

How much money would you need to retire early? There is no simple answer, and the farther away you are from retirement, the tougher it is to try and pinpoint how big of a nest egg you'll need.

If you're 35, have a big mortgage and face the prospect of sending three kids to college in the next decade, building a sizable nest egg may seem ludicrous. But 25 years from now—when college bills are behind you, the house is paid for, and your salary has soared—saving a large sum of money each month might be relatively pain-free.

Your ability to save for retirement will always change over the years, but retiring early could be even harder. You can't collect Social Security until you're at least 62, and even though you can begin withdrawing from Deferred Compensation, this could deplete your nest egg too soon. Yet Social Security and Deferred Compensation should be major sources of your retirement income.

The closer you get to when you want to retire, the more you need to take a precise look at how much money you'll need, exactly where it will come from, and how much you can withdraw each year without running out. That's when you should see an experienced financial planner.

So how much will you need to save? That amount always changes, but set an early retirement goal and get serious about saving for it. There are several web sites with calculators for figuring how much to save during your working years. They include ***kiplingers.com***, ***troweprice.com***, ***imfea.com*** and ***principal.com***.

2001 Finances in Review

After a six-year run of double digit returns, the ISBI's total fund experienced an abrupt correction, down 7.1% for fiscal year 2001. This is the first negative fiscal year for the fund since 1983, and reflects the negative stock market environment, both in the U.S. and abroad.

For both the five and ten year periods ending June 30, 2001, the fund beat the actuarial hurdle, with an average return of 10.5% and 11.1% respectively, which in both cases is also modestly ahead of the benchmark return.

By state law, SERS' investment function is managed by the Illinois State Board of Investment (ISBI). In addition to the assets of SERS, the ISBI also manages the investments for the General Assembly and Judges' Retirement Systems. All three Systems are accounted for in a commingled ISBI fund.

Revenues/Expenses

Contributions from state agencies and SERS members continue to rise as salaries increase.

Benefit expenses rose primarily as a result of recent legislation, including the passage of the Rule of 85 for retirement benefit eligibility.

Despite the negative investment returns of the marketplace, SERS retirement, survivor and disability benefits were unaffected, since they are determined by your months of service credit, earnings and benefit formula type. Just as benefits don't increase as a result of a bull market, they aren't reduced in a bear market.

Statement of Plan Net Assets

June 30, 2001 and 2000

	2001	2000
ASSETS		
Cash	\$ 103,210,369	\$ 97,638,073
Receivables	30,349,595	27,920,145
Investments (at fair value)	8,144,981,332	8,786,654,484
Equipment (net of acc. depr.)	<u>3,310,764</u>	<u>3,354,788</u>
Total Assets	\$ 8,281,852,060	\$ 8,915,567,490
Total Liabilities	\$ (5,190,708)	\$ (4,666,838)
Total Assets to Pay Pension Benefits	\$ 8,276,661,352	\$ 8,910,900,652

Statement of Revenues & Expenses

June 30, 2001 and 2000

	2001	2000
REVENUES		
Contributions:		
Members	\$ 173,778,661	\$ 164,792,356
Employer	366,028,937	340,872,521
Total Contributions	\$ 539,807,598	\$ 505,664,877
Investment Income (Loss)	\$ (612,302,652)	\$ 931,263,299
TOTAL REVENUES	\$ (72,495,054)	\$ 1,436,928,176
EXPENSES		
Benefits	\$ 537,591,724	\$ 489,915,421
Refunds <i>(including transfers)</i>	17,012,242	15,931,307
Administrative	<u>7,140,280</u>	<u>6,613,765</u>
TOTAL EXPENSES	\$ 561,744,246	\$ 512,460,493
Net Increase/Decrease	\$ (634,239,300)	\$ 924,467,683

Net Assets Held in Trust for Pension Benefits:

Beginning of Year	8,910,900,652	7,986,432,969
End of Year	\$ 8,276,661,352	\$ 8,910,900,652

Who Participates in Deferred Compensation?

At the end of 2000, the Deferred Compensation Program compiled a 'Participant Profile,' which describes the characteristics of its participants within each state agency, and trends evident since 1980. The report is based on 2000 salary data from the Office of the Comptroller.

At the end of 2000, there were 40,722 employees considered "active," meaning they made income deferrals in that year. The participants are mostly married, and remain predominately male (53%).

The average participant is age 45, earns more than \$45,000 annually, and defers \$3,126 of this income. The participant account was valued in excess of \$30,000.

During 2000, 4,212 participants deferred the \$8,000 maximum. There were also 659 participants who utilized the catch-up provision, which allows members to defer the maximum, plus an additional amount for three years prior to their "normal retirement age."

There were 4,150 participants in 2000 who received a distribution payment averaging \$9,897 annually.

Conclusions

The Participant Profile revealed several trends. The Deferred Compensation Program continues to see a significant increase in participation each year,

while the average age of the participants has declined steadily. This can be attributed to positive feedback from the retirees, enrollment efforts by the liaisons, and educational efforts by SERS.

Changing economic times and the trend in the investment industry to promote diversification and take more risk to maximize earning potential appears to be evident in the profile. Fifty-six percent of the participants are now deferring into three or more funds, which provides for needed diversification.

The Stable Return Fund (SRF) now contains 22% of the Plan's monies. As recently as eight years ago, 62% of the Plan's monies were in the SRF. In 2000, 31% of active participants were invested in the SRF and 72% were in the Acorn Fund.

Top 10 State Agencies with Participants Contributing to Deferred Compensation

AGENCY	PARTICIPANTS	AGENCY POPULATION
<i>State Police</i>	72.6%	2,736
<i>Aging</i>	71.1	86
<i>Environ. Protection</i>	64.4	799
<i>Public Health</i>	64.0	887
<i>Insurance</i>	62.6	238
<i>Misc. Agencies</i>	62.4	1,872
<i>Comm. & Com. Affairs</i>	61.9	313
<i>Auditor General</i>	61.3	46
<i>Governor</i>	60.8	87
<i>Financial Institutions</i>	60.4	61



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SERS on the Internet

SERS has an Internet Bulletin Board to keep members informed of legislation, workshop schedules, and other issues affecting them.

Our web site also contains the SERS financial report, the current plan summary, and the Illinois State Board of Investment's latest financial report.

A link to all state agencies is also available. Members may e-mail us with any questions and/or comments. Be sure to include your Social Security number on all inquiries.

Internet: <http://www.state.il.us/srs>

E-Mail: ser@mail.state.il.us

Address Change?

If you plan on moving, be sure to notify your agency payroll clerk of any change to your name or mailing address. This small amount of information ensures the efficient distribution of your Benefit Statement and other SERS publications.

An incorrect address can keep this material from ever reaching you.

Birth Certificates

When you apply for SERS retirement or disability benefits, we ask you for a copy of your birth certificate to keep on file. Plan ahead; get a copy now and keep it with your employment records.

If you don't have your original birth certificate from the state you were born in, contact the United States Vital Statistics office at 202-955-0307, or on the web at <http://vitalrec.com>.

In Illinois, contact the Department of Public Health at 217-782-6553.

Affluent baby boomers—those with household incomes of \$75,000 or more—spend less than an hour a month planning for their retirement, according to survey by Aetna Financials Services.

Other finding include:

***49%** of affluent boomers would like to retire by age 55, but only 21% expect to be financially secure enough to do so.*

***72%** of affluent boomers would like to retire by age 60, but only 49% expect to be financially secure enough to do so.*

To learn more about living a secure retirement, enroll in a SERS preretirement workshop. Contact your agency Retirement Coordinator to register.

SERS FACTOID

In the past ten years, SERS annual retirement benefits have increased from \$215.4 million to \$446.6 million



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